COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR
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MARK J. SALADINO
TREASURER AND TAX COLLECTOR

June 7, 2006

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: **SALE OF 2006-07 TAX AND REVENUE ANTICIPATION NOTES**

This memorandum is to advise you that earlier today my office sold $500 million in Tax and Revenue Anticipation Notes (TRANs) at a 4.50% coupon rate and a 3.50% reoffering yield. The sale of the Notes was authorized by your Board on May 16, 2006 as a necessary component of the County's cash management program.

The Notes were sold through a negotiated process to the lead underwriter for this transaction, Goldman, Sachs & Co. In spite of the continued rise in short-term interest rates since June 2004, considerable demand was exhibited for the County's Notes and we were able to sell the securities at a very competitive interest cost of 3.50%.

I have attached to this memorandum a copy of the rating reports from Standard & Poor's, Moody's and Fitch. The 2006-07 TRANs marks the 10th consecutive year in which each of the three rating agencies has assigned its highest short-term debt rating to the County's Notes. A Preliminary Official Statement for the transaction has also been attached and I will forward the final Official Statement as soon as it becomes available.

If you have any questions regarding this financing, please either contact me directly or have your staff contact Glenn Byers of my office at 974-7175.

MJS:GB:DB
pb/db/bospricingmemo

Attachments

c: Executive Officer, Board of Supervisors
Chief Administrative Officer
Auditor-Controller
County Counsel

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Summary: Los Angeles County, CA; Note

Publication date: 06-Jun-2006
Primary Credit Analyst: Ian Carroll, San Francisco (1) 415-371-5060; ian_carroll@standardandpoors.com
Secondary Credit Analyst: Peter V Murphy, New York (1) 212-438-2065; peter_murphy@standardandpoors.com

Credit Profile

US$500. mil 2006-07 Tax & rev Anticip nts ser A dtd 07/03/2006 due 06/29/2007 SP-1+
Sale date: 07-JUN-2006

Rationale

The 'SP-1+' short-term rating assigned to Los Angeles County, Calif.'s $500 million 2006-2007 TRANs, series A, reflects:

- The county's very diverse economy, with a population of 10.3 million, and good long-term creditworthiness ('A+' GO rating);
- A note structure that includes early set-asides of TRAN repayment amounts; and
- Strong projected debt service coverage of 2.20x using net general fund cash balances at note maturity, as well as historically conservative county cash flow projections.

The TRANs are secured by a first lien on lawfully available taxes, income, revenues, and other unrestricted money received by the county and attributable to fiscal 2007. The county is not authorized to levy a tax for the repayment of the notes. The county resolution requires the set aside of $174 million for note repayment from the county's first unrestricted money after Dec. 20, 2006; $90 million after Jan. 1, 2007; $57 million after Feb. 1, 2007; $61 million after March 1, 2007; and $118 million, plus accrued interest, after April 20, 2007.

The county projects strong 2.20x coverage at maturity of the fiscal 2007 TRANs using net general fund cash balances alone, consistent with the high cash coverage of recent years. The county's cash flow projections over the past few years have, in fact, proven conservative. The county's actual cash coverage of TRANs sold in fiscals 2003, 2004, 2005, and 2006 were 1.88x, 1.80x, 2.61x, and an estimated 2.8x, respectively--higher than respective projected cash coverage of 1.75x, 1.29x, 1.64x, and 1.80x at the time the original TRANs were sold. In addition to $630.5 million of projected general fund cash at fiscal year-end 2007, the county has access to other significant internal cash sources if general fund revenues do not meet projections. These additional sources include a variety of other county funds expected to total $1.1 billion at fiscal year-end 2006, including the tax collector's trust fund and a departmental trust fund held outside the general fund. Including these resources, 2006-2007 TRANs coverage at maturity rises to a very strong 4.3x.

The county's projection of general fund cash is based on its proposed fiscal 2007 budget, which assumes an 8.5% increase in property tax revenues and a 3.5% increase in sales taxes. The county's proposed fiscal 2007 budget includes total county expenditure increases of about 3%. The county estimates that about 14% of its budget represents discretionary revenue, an improvement from prior years. The rest of the county budget consists of the administration of state and federal programs.

The county invests its operating money and TRAN repayment amounts in the county-pooled investment fund. As of March 31, 2006, the pool had a book value of $16.985 billion and a market value of $16.959

billion; the pool is highly liquid, with an average maturity of 164 days. Investments (as of March 31) consisted of 42.36% in U.S. government and agency obligations, 32.12% in CP, 20.15% in CDs, and 5.02% in corporate notes. About 92.66% of the pool's participants are mandatory participants.

Long-term credit quality is characterized by a very broad and diverse economic base, as well as good financial reserves. A history of deficit spending for healthcare programs, however, has constrained the rating, with an ongoing structural deficit of $300 million and a reliance on general fund transfers. Nevertheless, the county's unreserved general fund balances on an audited GAAP basis have increased steadily, to $1.93 billion, or a healthy 17.4% of expenditures and net transfers out, at fiscal year-end June 30, 2005, from $294.3 million at the end of fiscal 1999. Unreserved general fund balances increased $389 million in fiscal 2005 alone.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Moody's Investors Service

Global Credit Research
New Issue
5 JUN 2006

New Issue: Los Angeles (County of) CA

MOODY'S ASSIGNS MIG 1 RATING TO TAX AND REVENUE ANTICIPATION NOTES OF LOS ANGELES COUNTY, CA

APPROXIMATELY $500 MILLION IN SHORT TERM DEBT AFFECTED

County
CA

Moody's Rating

ISSUE	**RATING**
2006-07 Tax and Revenue Anticipation Notes, Sereis A	MIG 1

Sale Amount	$500,000,000
Expected Sale Date	06/06/06
Rating Description	Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Jun 5, 2006 -- Moody's Investors Service has assigned a MIG 1 rating to Los Angeles County's $500 million issue of 2006-07 Tax and Revenue Anticipation Notes, Series A. The notes are being issued to fund the County's mid-year cash flow needs and are secured by a pledge of unrestricted, fiscal 2007 general fund receipts. The rating reflects the County's stable financial position, a proposed budget based on conservative assumptions, cash flow projections which reflect that conservative budget, and the board's demonstrated willingness to make significant program cuts when necessary to maintain balanced operations. The County's total liquidity is a strength reflected in the note rating, even adjusting for the County's more expansive definition of borrowable resources than that used by most counties. The County still faces a number of notable long-term challenges, particularly in the health department, but these do not affect the credit quality of its note issue for the upcoming fiscal year.

COUNTY'S GENERAL FUND AND OVERALL LIQUIDITY ARE STRONG AND CONTINUE TO IMPROVE OVER PRIOR YEARS.

After an extended period of cash surpluses in its general fund, the County is once again, very conservatively, projecting that it will experience a cash drawdown of $280 million in fiscal 2006. However, the currently projected 2006 ending cash balance of $961 million is $545 million higher than the original projection of $416 million, because the County's cash position at the beginning of 2006 was much higher than originally projected. The actual estimated cash draw down of $280 for the 2006 is essentially unchanged since the originally projected decline of $277 million. Despite the estimated drawdown, the 2006 ending cash balance still represents 7.5% of receipts, which is a very comfortable cash position for a county of this size. Also noteworthy is the fact that the County's 2006 projection includes estimates for the last two months which likely reflect some extremely conservative assumptions. Based on recent history, it is likely that the final June 30, 2006 cash position will surpass the current estimates. In each of the last five years through 2005, the actual ending cash balance has been significantly higher than the originally projected amount.

The County's overall financial position at the end of 2006 is expected to be essentially unchanged from the previous year. The total general fund balance is not expected to vary significantly from the previous year's $2.3 billion and unreserved fund balance of $1.9 million. However, the county also has a history conservatism in this estimate as well. Therefore, the actual June, 30, 2006 may exceed the already robust level of $2.3 billion or $20.2% of General Fund revenues. Within the balance at June 30,2005, we believe that much of the unreserved portion of $1.9 billion represented reserves of varying degrees of availability, which afforded the County ample operating flexibility; although it appears as though the County did not have to rely on them to a significant degree, which itself is a positive credit factor.

Cash flow projections show that the County expects a $331 million reduction in its cash position in 2007, with a year-end cash balance of $630 million or 4.9% of receipts. This projection appears reasonable, reflecting an increase of 6.2% Salaries and Benefits, a small decrease of 2.9% in Welfare Warrants, and unchanged Services and Supplies. These changes combine for a combined increase of 2.4% for these three key categorize. This small increase is consistent with the budget. The County's locally generated revenues have increased substantially in recent years, and the County's projections reflect continued robust rates of growth. Property taxes are projected to grow by 3.2% in 2007, while in 2006 they are estimated to grow by more than 15%, although some of this growth reflects the State's realignment. The small increase in property taxes may be one of the most conservative elements of the current 2007 cash flow estimates. The County estimates a net impact of plus $33.6mn to the County from the Governor's May proposals if adopted.

The amount of money available for interfund borrowing remains ample. For the end of fiscal 2006, the County estimates that gross funds available for interfund borrowing will be $1.049 billion. Combined with the projected cash balance in the general fund, total available liquidity should equal $1.7 billion or 13.1% of cash receipts.

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2007: 3.9%

Actual Ending Cash as % of Receipts, FY 2005: 8.8%

Projected Ending Cash as % of Receipts, FY 2006: 7.5%

Projected Ending Cash as % of Receipts, FY 2007: 4.9%

Historical Minimum Audit Cash as % of Revenue, FY 2003-05: 14.4%

Alternate Liquidity (Estimated 6/30/07): $1.049 billion

Alternate Liquidity % of FY 2007 Receipts: 8.2%

Pledged Set-Aside timing (months before June): 4.2 months

Analysts

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Fitch Rates Los Angeles County, California's $500MM TRANs 'F1+' Ratings

05 Jun 2006 4:46 PM (EDT)

Fitch Ratings-San Francisco-05 June 2006: Fitch rates Los Angeles County, California's (the county) $500 million 2006-07 Tax and Revenue Anticipation Notes, Series A 'F1+'. The notes will be sold through negotiation by a syndicate led by Goldman, Sachs & Co on or about June 7. The notes are dated July 3, 2006 and mature June 29, 2007.

Fitch's highest rating for short-term debt reflects the sound note repayment structure, strong coverage of all note repayment set-asides, and the availability of substantial borrowable resources throughout the fiscal-year (FY). The repayment deposit structure sets aside 100% of principal and interest two months in advance of note maturity. The county's long-term credit quality also is a rating factor, reflecting a growing and diverse economy, improved financial operations including progress toward ongoing fiscal balance in the health and hospitals system, and good year-end reserves, as well as ongoing financial challenges. While acknowledging the county's successful efforts in achieving fiscal balance and gradually restoring some services, Fitch notes that the health and hospitals' system remaining fiscal imbalance, albeit reduced from prior years, will continue to require acute focus and strong discipline to achieve a sustainable financial condition.

The notes are secured by a first lien on unrestricted revenue in FY 2007. Pledged revenue is projected to total $5.99 billion, covering note principal and interest 11.4 times (x). Funds for repayment will be set aside based on an aggressive schedule beginning in December 2006. By Jan. 31, 2007 more than one-half of the estimated principal and interest due will be impounded; the full amount will be set-aside by April 30. The projected cash flow covers all five set-asides well, ranging from 3.2x-12.3x. Also, the county has a substantial pool of resources available for the intrafund loans, with month-end balances in these funds ranging from $1.2-$3.6 billion. The FY 2007 cash flow projects ending the year with a moderate cash balance relative to the budget, $630.1 million. Historically, the county's actual ending balances have been higher than originally forecast.

The projected cash flow is based on the county's proposed budget, which is based on California's proposed budget as detailed in January 2006. Since then, the state's May revision suggests several small items that could balance to a minimal increase in revenue for the county. For all California counties and like last year, the county's budget incorporates greater certainty than in prior years.

The proposed FY 2007 budget shows a slight decline in spending from the FY 2006 budget, although the reduction is in one-time costs that were funded with non-recurring revenue. Ongoing spending shows moderate growth as discretionary revenue, primarily property taxes, and the end of the state initiated shift of property tax revenue to school districts, enables reinstatement of certain programs and services cut in recent years. The budget proposes to reopen jail facilities closed during weak financial years, expand certain health social services, and moderately increase county employees by 3.1%, while incorporating recent labor agreements and expectations for ongoing negotiations. The county reached a three-year labor agreement with one union, and reports being close to closure with two others. The general fund budget is balanced using $622 million of the prior year's fund balance, a reasonable 3% of the total $19.4 billion in spending.

Fitch notes the county's progress in restructuring its extensive, and financially draining, health and hospital system. While the County Board of Supervisors approved a service and facility reduction plan several years ago, litigation and other obstacles have prevented implementation. Within the last few months, however, the county reached agreements with plaintiffs in two cases, enabling service reductions at two facilities. These changes are far smaller than those incorporated in the Board's original plan, and the system still faces a $300 million structural budget gap. To date, funding shortfalls have been closed with limited-time state and federal resources, accumulated reserves, additional general fund support, and, most recently, revenue from a voter-approved parcel tax. The legal settlements are contingent upon the county achieving certain performance targets. Fitch believes that the county's progress to date bodes well for its ability to close the remaining gap, which is small relative to the systems' overall operations. However, public demand and political pressures remain strong on this issue.

Overall, Los Angeles County's financial performance in non-health areas shows sound policies and practices, resulting in operating surpluses each of the last eight fiscal years, building up strong reserves. Also, the county's debt burden is moderate, and future issuance is expected to be manageable. Debt levels are aided by the county's recent funding of a 600-bed replacement hospital for its LAC+USC medical center without debt.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

PRELIMINARY OFFICIAL STATEMENT DATED MAY 26, 2006

NEW ISSUE – BOOK ENTRY ONLY

RATINGS:
Moody's: ____
Standard & Poor's: ____
Fitch: ____
(See "RATINGS" herein.)

In the opinion of Nixon Peabody LLP, Bond Counsel, assuming the accuracy of certain representations and compliance by the County with certain tax covenants described herein, the interest on the Notes is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions and, in the opinion of Bond Counsel, the interest on the Notes is exempt from personal income taxes of the State of California under present State law. In addition, Bond Counsel is of the opinion that the Notes are not "private activity bonds" and, therefore, the interest on the Notes will not be treated as a specific item of tax preference for purpose of the federal alternative minimum tax on individuals and corporations. However, the interest on the Notes is included in the computation of certain federal taxes on corporations. See "TAX EXEMPTION" herein.

$500,000,000*
COUNTY OF LOS ANGELES
2006-07 Tax and Revenue Anticipation Notes, Series A
___% Priced to Yield ___%
CUSIP No. 544657GY9

Dated: July 3, 2006 **Due: June 29, 2007**

The County of Los Angeles 2006-07 Tax and Revenue Anticipation Notes, Series A (the "Notes") will be issued as fixed rate notes in fully registered form. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchases of beneficial interests in the Notes will be made in book-entry only form, in denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Notes purchased. The Notes will bear interest at a fixed rate per annum from their dated date and will be priced as set forth above. Principal of and interest on the Notes are payable on the maturity date thereof directly to DTC by the Paying Agent. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Notes. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

The Notes are being issued to provide moneys to help meet Fiscal Year 2006-07 County General Fund Expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County of Los Angeles (the "County"). The Notes are being issued pursuant to a resolution adopted by the Board of Supervisors of the County on May 16, 2006 (the "Resolution") and a Financing Certificate entitled, "Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of 2006-07 Tax and Revenue Anticipation Notes, Series A" (the "Financing Certificate") to be delivered on the date of issuance of the Notes pursuant to the Resolution. In accordance with California law, the Notes are general obligations of the County, payable only from unrestricted taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2006-07 and lawfully available for the payment of the Notes. The Notes and the interest thereon are secured by a pledge of certain unrestricted taxes, income, revenue, cash receipts and other moneys. The County is not authorized, however, to levy or collect any tax for the repayment of the Notes. See "THE NOTES – Security for Issue" herein.

The Notes are not subject to redemption prior to maturity.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.

The Notes will be offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Nixon Peabody LLP, Bond Counsel, and the approval of certain legal matters for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. Certain legal matters will be passed upon for the County by the County Counsel. It is expected that the Notes will be available for delivery through the facilities of DTC on or about July 3, 2006.

Goldman, Sachs & Co.

Banc of America Securities LLC **Lehman Brothers**

Great Pacific Securities **Estrada Hinojosa & Company, Inc.**

The date of this Official Statement is June _, 2006.

*Preliminary, subject to change.